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Agricultural Situation

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Report Highlights:

On July 6, 2009, Finance Minister Pranab Mukherjee presented before the Parliament the newly elected UPA government's budget for IFY 2009/10 (Apr-Mar). The highlight of the budget was increased focus on agriculture and rural India, infrastructure development and export growth. The Budget does not contain any significant change in the import duty structure for various goods in general and for agricultural products in particular, except that import duty on biodiesel was reduced from 7.5 percent to 2.5 percent, and duty on cotton waste and wool waste was lowered from 15 percent to 10 percent.

General Information:

Increased Focus on Agriculture and Rural India

Finance Minister Pranab Mukherjee, in his Budget presented on July 6, 2009, announced a massive 144 percent increase in fund allocation for the government's flagship National Rural Employment Guarantee Program (NREGS) at Rs. 391 billion (\$8.1 billion), aimed at providing

100 days of guaranteed employment for one member in every rural family.

To ensure food security for the vulnerable section of the population, the government is planning to enact the National Food Security Act, which guarantees 25 kilograms of wheat/rice per month for below poverty line families at the subsidized price of Rs. 3 per kg.

The target for agricultural credit in IFY 2009-10 was set at Rs. 3.25 trillion (\$67.7 billion). To achieve this target, the interest on short-term crop loans to farmers for loans up to Rs. 300,000 was reduced by one percent to six percent, provided farmers repay their short-term crop loans on schedule. Furthermore, under the Agricultural Debt Waiver and Debt Relief program announced last year, large farmers (more than two hectares of land) were given up to June 30, 2009 to pay 75 percent of their overdue loans; this has now been extended by six months to December 31, 2009.

To ensure balanced application of fertilizers, the government is considering moving towards a nutrient based subsidy regime instead of the current product pricing regime.

Budget allocation for the Accelerated Irrigation Benefit Program was increased by 75 percent to Rs. 10 billion, and allocation for the Rashtriya Krishi Vikas Yojana (the National Agricultural Development Program) was increased by 30 percent over the IFY 2008-09 level.

Agricultural and Food Subsidy

An increase in the support price for wheat and rice, without any offsetting increases in the government administered sales price of these commodities, has resulted in a significant increase in the GOI food subsidy allocation for IFY 2009-10 to Rs. 524.9 billion (\$11 billion) compared with the IFY 2008-09 revised estimate of Rs. 436.3 billion (\$9.1 billion). The food subsidy is paid out indirectly by offering subsidized basic foods (wheat and rice) to identified "below poverty line" (BPL) families via the public distribution system (PDS) at the state level. The PDS system provides subsidized food to over 60 million BPL households in India, making it one of the largest "cheap food" schemes in the world.

For sustained agricultural growth and to promote balanced soil nutrient application, the government makes available fertilizers to farmers at subsidized prices. The budgetary allocation for fertilizer subsidy in IFY 2009-10 is Rs. 499.8 billion (\$10.4 billion), a significant decline from the IFY 2008-09 revised subsidy of Rs. 758.5 billion (\$15.8 billion) due to the decline in the prices of imported fertilizers.

No Major Changes in Agricultural Tariffs

The Finance Minister has kept the peak tariff rate for agriculture and non-agriculture products unchanged. There were no changes in the tariffs for various agricultural products with the exception that import duty on biodiesel was reduced from 7.5 percent to 2.5 percent (at par with petro-diesel) and duty on cotton waste and wool waste was lowered from 15 percent to 10 percent. Along with biodiesel, petro diesel blended with biodiesel has been exempted from excise duty (production tax). Food products have also been exempted from the excise duty increase on products currently attracting 4 percent to 8 percent.

